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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE SUBCOMMITTEE, APPROPRIATIONS COMMITTEE
UNITED STATES SENATE
ON
BUDGET ESTIMATES FOR FISCAL YEAR 1971
FOR THE COST-ACCOUNTING STANDARDS BOARD

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

We appear before you today to discuss the budget estimates for the establishment and continuing expenses through June 30, 1971, of the Cost-Accounting Standards Board authorized by Public Law 91-379, approved on August 15 of this year.

In the way of background, the Congress, in extending the Defense Production Act of 1950, included a new section this year--creating a Cost-Accounting Standards Board, as an agent of the Congress, composed of the Comptroller General of the United States who shall serve as Chairman, and four other members appointed by the Comptroller General. Of the members to be appointed to the Board, two, of whom one is to be particularly knowledgeable about cost-accounting problems of small business, is to be from the accounting profession; one is to be representative of industry; and one is to be from a department or agency of the Federal Government.

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The principal function of the Board is to develop and promulgate cost-accounting standards designed to achieve greater uniformity and consistency in the cost-accounting practices followed by defense contractors and subcontractors under negotiated defense procurements in excess of \$100,000. A large and growing proportion of defense procurements is of the negotiated type, reaching 89 percent in fiscal year 1969.

Let me emphasize at the outset that the budget estimates we are presenting are for the purpose of starting operations of the Cost-Accounting Standards Board. The Board is not yet functioning and funds will need to be provided to commence operations.

We have solicited nominations for members of the Board from 5 professional accounting associations, 11 industry trade associations (including several associations representing small business), 10 Government departments and agencies (including the Department of Defense and the Office of Management and Budget), as well as several prominent individuals in the accounting profession. In response to these solicitations, we have received the names of over 85 individuals for consideration for appointment to the Board. We are currently reviewing and evaluating these nominations and plan to appoint Board members as soon as funds have been appropriated to commence operations of the Board.

Although the Board will have to approve the form and structure of its organization, define its administrative and technical functions, and approve its methods of operations and the scope of work to be performed in the development of cost-accounting standards, it appears that the Board's staff will have to be concerned heavily in researching existing cost-accounting principles and practices, reviewing and analyzing such information from a technical standpoint, and testing possible cost-accounting standards in operation.

We have estimated the first full year of operation of the Board at \$1,500,000. At the time we appeared before the House Legislative Subcommittee, Committee on Appropriations in September 1970 we reduced this estimate to \$1,100,000, to give effect to the fact that the Board would only be operating for about a 9-month period during the fiscal year. In view of the additional time that has elapsed since appearing before the House Subcommittee, we have reduced our estimate by an additional \$280,000 to \$820,000. The new estimate is based on an operating period of about 6 months during fiscal year 1971.

On the basis of our estimates, the \$820,000 will be used as follows:

- \$251,400 for salaries and related benefits of the Board, professional staff (including an Executive Secretary) and supportive clerical staff.
- \$181,600 for travel of Board, its staff and task force teams comprised of representatives of Government, accounting profession and industry.
- \$126,000 for equipment, furniture and fixtures and rental of office space.
- \$140,000 for expenses of partitioning and making ready office space.
- \$121,000 for contract services, reimbursements for computer services, administrative and personal services, and reimbursements to other Government agencies.

Our estimate was prepared on the basis that the Board would be devoting a substantial amount of its time to achieving the formulation of cost-accounting standards for defense procurements. It is my intention to obtain Board members who are well-recognized and highly-qualified in the technical aspects of cost accounting and who can devote a substantial amount of time studying, evaluating, revising, and finalizing proposed cost-accounting standards so that authoritative cost-accounting standards could be promulgated as early as practicable. The Board, of course, would meet rather frequently during its early existence to consider organizational and technical plans and to formulate administrative policy, and meet less frequently thereafter to consider proposed actions relating to cost-accounting standards.

The enabling legislation provides that each Board member appointed from private life will receive compensation at a rate of one two-hundred-sixtieth of the rate prescribed for level IV (\$38,000 per annum) of the Federal Executive Salary Schedule for each day in which he is engaged in the actual performance of duties vested in the Board. The enabling legislation also provides that the Comptroller General (who serves as Chairman) and one member to be named from Government would continue to receive the compensation of his regular position from the agency employing him.

Our estimate was also prepared on the basis that the Executive Secretary and two senior staff assistants would be named as required by the enabling legislation and that about 25 professional positions and 12 supportive clerical positions would be required to initially provide staff needed for the Board's functions. The estimate of 25 professional staff was based

not only on the number of people which we believe could still be assimilated in this new organization in fiscal year 1971 but also on the basis that at least that number will be required to perform the research and technical effort required for the initial operations of this new organization.

Our estimate also took into account the need for coordination and cooperation with other Government agencies, the accounting profession, and industry. For example, it is possible that the Board will wish to establish task force teams. The size of these teams presumably would vary (3 to 5 members or possibly more) with usually one member being from the Board's professional staff. These teams would visit plants of various types of defense and non-defense industries to obtain information on basic cost-accounting practices in use today for the purpose of developing cost-accounting standards for specific elements of cost. The task forces might be comprised of representatives of Government, accounting profession and industry. In view of the indications of voluntary assistance coming from those sources, we are anticipating that those serving on the task force teams would not be reimbursed for their services, but that the Board would finance the necessary travel costs involved.

This generally summarizes our views with respect to the initial operation of the Cost-Accounting Standards Board. I will be glad to answer any questions to the extent possible but want to emphasize that in the absence of the existence of a functioning Board, I will necessarily have to express my own opinions rather than those of the entire Board.

COST-ACCOUNTING STANDARDS BOARDBUDGET ESTIMATES--FISCAL YEAR 1971SALARIES, BENEFITS AND TRAVEL

	<u>Days</u>	<u>Salary Rate per day</u>	<u>Amount</u>	<u>Benefits</u>	<u>Travel</u>	<u>Total</u>
Board (Level IV)						
2 public		\$ 0	\$ -0-	\$ -0-	\$ 8,700	\$ 8,700
3 private	220 X	150	33,000	3,300	16,000	52,300
Executive Secretary (Level IV)						
1 position	110 X	150	16,500	1,700	10,700	28,900
Staff Assistants (Level V)						
2 positions	175 X	140	24,500	2,500	10,700	37,700
Professional and clerical:						
25 technical	1334 X	100	133,400	13,400	33,700	180,500
12 clerical	600 X	35	21,000	2,100	-0-	23,100
Task force teams--representatives from Government, accounting pro- fession, and industry			-0-	-0-	101,800	101,800
Total			<u>\$228,400</u>	<u>\$23,000</u>	<u>\$181,600</u>	433,000

OTHER EXPENSES

Equipment, furniture	105,000
Rental of office space	21,000
Partitioning and make ready office	140,000
Contract services, computer services, adminis- trative and personnel services	<u>121,000</u>
	<u>\$820,000</u>